

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Kalamazoo Metro Transit System	County Kalamazoo
Fiscal Year End December 31, 2006	Opinion Date June 28, 2007	Date Audit Report Submitted to State June 29, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

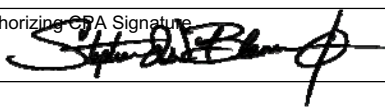
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 517.787.6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49204
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801

CITY OF KALAMAZOO, MICHIGAN

METRO TRANSIT SYSTEM

**Financial Statements
And
Supplementary Information**

**For the Years Ended
December 31, 2006 and 2005**



REHMANN ROBSON

Certified Public Accountants

CITY OF KALAMAZOO, MICHIGAN METRO TRANSIT SYSTEM

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report.....	1
 Financial Statements for the Years Ended December 31, 2006 and 2005	
Statements of Net Assets	2
Statements of Revenue, Expenses and Changes in Fund Net Assets	3
Statements of Cash Flows	4-5
Notes to Financial Statements	6-13
 Supplementary Information for the Year Ended December 31, 2006	
Schedule of Operating Revenue, Non-Operating Revenue and Capital Contributions	14
Schedule of Operating Expenses.....	15
Schedule of Expenses by Contract and General Operations	16
Net Eligible Cost Computations of General Operations	17-18
Schedule of Federal Grant Funding	19
Schedule of State Grant Funding	20
Schedule of Vehicle Miles	21-22
Schedule of Line-Haul Passenger Data.....	23-24
Schedule of Line-Haul Vehicle Hours	25-26
 Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	 27-28



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

an independent member of
BAKER TILLY
INTERNATIONAL

INDEPENDENT AUDITORS' REPORT

June 28, 2007

Honorable Mayor and Members of the
City Commission and the
Kalamazoo Transit Authority
Kalamazoo, Michigan

We have audited the accompanying basic financial statements of the ***City of Kalamazoo, Michigan, Metro Transit System, a component unit of the City of Kalamazoo***, as of December 31, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Kalamazoo, Michigan, Metro Transit System as of December 31, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2007, on our consideration of the City of Kalamazoo, Michigan, Metro Transit System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The System has not presented Management's Discussion and Analysis for the Metro Transit System as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of the financial statements.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information for the year ended December 31, 2006 listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the City of Kalamazoo, Michigan, Metro Transit System. The information on pages 14 through 20, inclusive, has been subjected to the procedures applied in the audit of the 2006 financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2006 financial statements taken as a whole. The information on pages 21 through 23 has not been subjected to the procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

FINANCIAL STATEMENTS

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Statements of Net Assets
December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Current assets		
Cash and cash equivalents	\$ 3,538,420	\$ 1,998,344
Receivables:		
Taxes	360,686	327,322
Customers	47,116	162,598
Due from other governments	380,159	1,601,968
Due from the City of Kalamazoo	7,753	16,478
Prepaid expenses	2,836	-
Inventories	311,499	329,228
	<u>4,648,469</u>	<u>4,435,938</u>
Total current assets		
Non-current assets		
Restricted investments	1,132,909	1,151,263
Capital assets not being depreciated	2,027,631	10,327,352
Capital assets being depreciated, net	17,457,669	6,895,170
	<u>20,618,209</u>	<u>18,373,785</u>
Total non-current assets		
Total assets	<u>25,266,678</u>	<u>22,809,723</u>
Current liabilities		
Accounts payable	639,770	1,736,712
Accrued and other liabilities	111,763	128,515
Due to the City of Kalamazoo	296,350	180,603
Due to other governments	-	84,335
Deferred revenue (unearned)	1,138,304	469,652
Current portion of tax tribunal payable	-	6,118
Current portion of compensated absences	21,257	18,200
	<u>2,207,444</u>	<u>2,624,135</u>
Total current liabilities		
Long-term liabilities		
Compensated absences, net of current portion	148,800	127,398
	<u>2,356,244</u>	<u>2,751,533</u>
Total liabilities		
Net assets		
Invested in capital assets	19,485,300	17,222,522
Unrestricted	3,425,134	2,835,668
	<u>\$ 22,910,434</u>	<u>\$ 20,058,190</u>
Total net assets		

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Statements of Revenue, Expenses, and
Changes in Fund Net Assets
For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenue		
Passenger fares	\$ 2,002,349	\$ 1,657,967
Charter service	4,327	(1,024)
Special transit service	28,766	66,635
Other operating revenue	<u>64,693</u>	<u>102,647</u>
Total operating revenue	<u>2,100,135</u>	<u>1,826,225</u>
Operating expenses		
Operations	7,495,263	7,185,936
Maintenance	2,165,916	1,986,769
General administration	<u>3,571,733</u>	<u>3,382,794</u>
Total operating expenses	<u>13,232,912</u>	<u>12,555,499</u>
Operating loss	<u>(11,132,777)</u>	<u>(10,729,274)</u>
Non-operating revenue		
Tax levy	1,589,909	1,500,275
Federal grants	1,863,462	1,360,594
State grants	4,644,253	4,208,035
Subsidies from other governments	2,370,462	2,531,028
Investment income	143,086	50,908
(Loss) on sale of capital assets	<u>(75,011)</u>	<u>(84,180)</u>
Total non-operating revenue	<u>10,536,161</u>	<u>9,566,660</u>
Loss before capital contributions	<u>(596,616)</u>	<u>(1,162,614)</u>
Capital contributions		
Federal grants	2,195,478	3,263,464
State grants	1,248,382	4,438,096
Local sources	<u>5,000</u>	<u>1,413,111</u>
Total capital contributions	<u>3,448,860</u>	<u>9,114,671</u>
Change in net assets	2,852,244	7,952,057
Net assets, beginning of year	<u>20,058,190</u>	<u>12,106,133</u>
Net assets, end of year	<u><u>\$ 22,910,434</u></u>	<u><u>\$ 20,058,190</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Statements of Cash Flows
For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Cash received from customers	\$ 4,081,439	\$ 1,923,625
Cash payments to suppliers for goods and services	(9,479,438)	(6,668,417)
Cash payments to employees for services	(3,573,201)	(3,406,291)
Net cash used by operating activities	<u>(8,971,200)</u>	<u>(8,151,083)</u>
Cash flows from non-capital financing activities		
Tax levy proceeds	1,589,909	1,500,275
Proceeds from grants used for operations and maintenance	6,507,715	5,568,629
Subsidies from other governments	2,370,462	2,531,028
Net cash provided by non-capital financing activities	<u>10,468,086</u>	<u>9,599,932</u>
Cash flows from capital and related financing activities		
Purchase of property and equipment	(3,573,679)	(8,051,004)
Proceeds from grants used for capital acquisitions	3,448,860	8,035,200
Proceeds from the sale of capital assets	6,569	16,646
Net cash provided (used) by capital and related financing activities	<u>(118,250)</u>	<u>842</u>
Cash flows from investing activities		
Investment income	143,086	50,908
Purchase of investments	(1,132,909)	(1,151,263)
Sale of investments	1,151,263	1,145,145
Net cash provided by investing activities	<u>161,440</u>	<u>44,790</u>
Net increase in cash and cash equivalents	1,540,076	1,494,481
Cash and cash equivalents, beginning of year	<u>1,998,344</u>	<u>503,863</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,538,420</u></u>	<u><u>\$ 1,998,344</u></u>

continued...

Non-cash transactions:

There were no significant non-cash transactions during the year.

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Statement of Cash Flows (Concluded)
For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (11,132,777)	\$ (10,729,274)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	1,229,321	1,122,951
Changes in assets and liabilities:		
Receivables	82,118	(82,646)
Due from other governments	1,221,809	(1,009,962)
Due from City of Kalamazoo	8,725	897,216
Prepaid expenses	(2,836)	-
Inventories	17,729	(100,223)
Accounts payable	(1,096,942)	1,395,503
Accrued and other liabilities	(16,752)	3,876
Due to City of Kalamazoo	115,747	(10,360)
Due to other governments	(84,335)	84,335
Deferred revenue	668,652	292,792
Tax tribunal payable	3,057	12,082
Compensated absences payable	15,284	(27,373)
Net cash used by operating activities	<u><u>\$ (8,971,200)</u></u>	<u><u>\$ (8,151,083)</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN METRO TRANSIT SYSTEM

Notes To Financial Statements

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kalamazoo, Michigan, Metro Transit System (the “System” or “Authority”), is a discretely presented component unit of the City of Kalamazoo. The City acquired these operations on September 23, 1966 pursuant to the provisions set forth in Section 157A of the City Charter. The Authority manages the operations of the system pursuant to an agreement with the City of Kalamazoo. The System provides public transportation services to users in the City of Kalamazoo and portions of the surrounding area.

The accounting policies of the System conform to generally accepted accounting principles as applicable to enterprise funds of governmental units. A summary of significant accounting policies is as follows:

Basis of Accounting - The accounts of the System are organized on the basis of an enterprise fund. This Fund accounts for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The System is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The System has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the System are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF KALAMAZOO, MICHIGAN METRO TRANSIT SYSTEM

Notes To Financial Statements

Cash Equivalents - All highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Investments - Investments are recorded at fair value.

Inventories - Inventories consist of repair parts, supplies and fuel and are valued at cost, on a first-in, first-out basis, which approximates fair value.

Capital Assets - Capital assets are defined by the government as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of two years. Property and equipment are recorded at cost or, if donated, at their estimated fair value on the date donated. Depreciation on such capital assets is recorded on a straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred. Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5-50
Buildings and building improvements	50
Vehicles	7-10
Office equipment	6-10
Machinery and equipment	3-10

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Property Taxes - The System is permitted by P.A. 55 of the Public Acts of 1963, as amended, to levy property taxes to assist in its operations. Property taxes attach as an enforceable lien on property as of December 1 and are levied on July 1. The City of Kalamazoo bills and collects taxes for the System. During 2006 and 2005, the System levied a voted millage of \$1.0 and \$1.0 per \$1,000 of assessed valuation, respectively.

Compensated Absences - Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulated sick leave benefits that it is estimated will be taken as "termination leave" prior to retirement.

Deferred Revenue (Unearned) - Certain receipts from other entities reflect revenue applicable to future accounting periods and are recorded as deferred revenue (unearned).

CITY OF KALAMAZOO, MICHIGAN METRO TRANSIT SYSTEM

Notes To Financial Statements

2. DEPOSITS AND INVESTMENTS

The System's deposits and investments are included on the statements of net assets under the following classifications:

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 3,538,420	\$ 1,998,344
Restricted investments	<u>1,132,909</u>	<u>1,151,263</u>
Total	<u>\$ 4,671,329</u>	<u>\$ 3,149,607</u>

The above amounts are classified in the following categories:

	<u>2006</u>	<u>2005</u>
Cash on hand	\$ 400	\$ 400
Bank deposits (checking accounts, savings accounts and certificates of deposit)	2,703,729	2,174,245
Investments:		
U.S. agencies	981,900	974,962
Bankers acceptances	<u>985,300</u>	<u>-</u>
Total	<u>\$ 4,671,329</u>	<u>\$ 3,149,607</u>

Custodial Credit Risk - Deposits. For deposits, custodial credit risk is the risk, that in the event of a bank failure, the System's deposits may not be returned to the government. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$1,651,338 and \$1,934,739 at December 31, 2006 and 2005, respectively. Federal depository insurance is applied to the City of Kalamazoo's deposits as a whole. Therefore, the portion of the System's deposit covered by FDIC is not determinable.

The System's banking and investment policy does not specifically address this risk, although the System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

CITY OF KALAMAZOO, MICHIGAN METRO TRANSIT SYSTEM

Notes To Financial Statements

Custodial Credit Risk - Investments. As of December 31, 2006 and 2005, the System's investments were comprised of U.S. agencies and bankers acceptances and solely U.S. agencies, respectively. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery vs. payment. As of December 31, 2006 and 2005, none of the System's investments were exposed to risk since the securities are held in the System's name by the counterparty.

Credit Risk. As of December 31, 2006 and 2005, all of the System's investments in securities of U.S. agencies were rated AAA by Standard & Poor's. All of the System's investments comply with its policy regarding the types of investments it may hold.

Concentration of Credit Risk. At December 31, 2006, the investment portfolio was concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% of Portfolio</u>
U.S. agencies	Federal Home Loan Mortgage Association	49.9%
Bankers acceptance	JP Morgan Chase	50.1%

Among other provisions, the System's investment policy permits the entire portfolio to be invested in obligations of U.S. agencies with the limitation that no more than 35% may be placed with a single institution. However, the investments of the System are pooled with those of the City of Kalamazoo's and the concentration is determined for the entire pool, not the System individually.

Interest Rate Risk. As of December 31, 2006, all of the System's securities were due within one year. The System's policy provides that the maximum weighted average maturity will be limited to 18 months.

CITY OF KALAMAZOO, MICHIGAN METRO TRANSIT SYSTEM

Notes To Financial Statements

3. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

	Balance 01/01/2006	Increases	Decreases	Balance 12/31/2006
Capital assets not being depreciated:				
Land	\$ 2,012,631	\$ -	\$ -	\$ 2,012,631
Construction in progress	8,314,721	15,000	(8,314,721)	15,000
	10,327,352	15,000	(8,314,721)	2,027,631
Capital assets being depreciated:				
Building & improvements	5,216,930	10,510,517	-	15,727,447
Land improvements	321,004	13,637	-	334,641
Machinery and equipment	1,345,511	87,216	-	1,432,727
Vehicles	10,352,699	1,262,030	(873,442)	10,741,287
Total capital assets being depreciated	17,236,144	11,873,400	(873,442)	28,236,102
Accumulated depreciation:				
Building & improvements	(2,700,716)	(287,257)	-	(2,987,973)
Land improvements	(267,860)	(7,897)	-	(275,757)
Machinery and equipment	(1,001,489)	(97,736)	-	(1,099,225)
Vehicles	(6,370,909)	(836,431)	791,862	(6,415,478)
Total accumulated depreciation	(10,340,974)	(1,229,321)	791,862	(10,778,433)
Total capital assets being depreciated, net	6,895,170	10,644,079	(81,580)	17,457,669
Total capital assets, net	\$ 17,222,522	\$ 10,659,079	\$ (8,396,301)	\$ 19,485,300

CITY OF KALAMAZOO, MICHIGAN METRO TRANSIT SYSTEM

Notes To Financial Statements

Capital asset activity for the year ended December 31, 2005 was as follows:

	Balance 01/01/05	Increases	Decreases	Balance 12/31/05
Capital assets not being depreciated:				
Land	\$ 2,012,631	\$ -	\$ -	\$ 2,012,631
Construction in progress	836,891	7,583,260	(105,430)	8,314,721
	2,849,522	7,583,260	(105,430)	10,327,352
Capital assets being depreciated:				
Building & improvements	5,060,702	156,228	-	5,216,930
Land improvements	321,004	-	-	321,004
Machinery and equipment	1,282,483	63,028	-	1,345,511
Vehicles	10,232,516	353,918	(233,735)	10,352,699
Total capital assets being depreciated	16,896,705	573,174	(233,735)	17,236,144
Accumulated depreciation:				
Building & improvements	(2,546,833)	(153,883)	-	(2,700,716)
Land improvements	(260,305)	(7,555)	-	(267,860)
Machinery and equipment	(886,937)	(114,552)	-	(1,001,489)
Vehicles	(5,656,857)	(846,962)	132,910	(6,370,909)
Total accumulated depreciation	(9,350,932)	(1,122,952)	132,910	(10,340,974)
Total capital assets being depreciated, net	7,545,773	(549,778)	(100,825)	6,895,170
Total capital assets, net	\$ 10,395,295	\$ 7,033,482	\$ (206,255)	\$ 17,222,522

4. RESTRICTED ASSETS

Restricted assets represent investments that have been segregated for equipment and contingency reserves due to Transit Authority Board action. Net assets have not been restricted for these assets since this is an internal only designation.

CITY OF KALAMAZOO, MICHIGAN METRO TRANSIT SYSTEM

Notes To Financial Statements

5. LONG-TERM DEBT

A schedule of changes in long term debt for the year ended December 31, 2006 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Metro Transit					
Compensated Absences	\$ 145,598	\$ 170,057	\$ 145,598	\$ 170,057	\$ 21,257
Tax Tribunal Payable	6,118	-	6,118	-	-
				<u> </u>	<u> </u>
Total Metro Transit	<u>\$ 151,716</u>	<u>\$ 170,057</u>	<u>\$ 151,716</u>	<u>\$ 170,057</u>	<u>\$ 21,257</u>

6. DEFINED BENEFIT PENSION PLAN

The Transit System contributes to the City of Kalamazoo Employees' Retirement System, which is the administrator of a single-employer public employees retirement system that covers all employees of the City. The City of Kalamazoo Employees' Retirement System report has been issued under separate cover.

7. COST ALLOCATIONS

The System has cost allocation plans for all allocated expenses. All allocation plans are approved by the Michigan Department of Transportation and the Bus Transit Division. These expenses include amounts charged to the program for time spent by accounting personnel of the City in maintaining financial accounting records related to the System. The plans have been adhered to in the preparation of the financial statements.

8. RISK MANAGEMENT

The System is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees.

CITY OF KALAMAZOO, MICHIGAN METRO TRANSIT SYSTEM

Notes To Financial Statements

The System participates in the City of Kalamazoo's risk management program for all of these exposures. The City's risk management program is primarily a self-insured program with reinsurance for amounts in excess of aggregate loss funds. The City estimates the liability for unpaid claims (including claims incurred but not reported) and allocates the cost to all appropriate entities and funds. There is no further exposure to the System that would require a liability to be recorded in the financial statements.

9. CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by those agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the System. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the System expects such amounts, if any, to be immaterial.

10. FEDERAL FUNDS

The federal funds received by the System are reported upon as required by the Single Audit Act Amendments of 1996 and Office of Management and Budget Circular A-133 in the City's Single Audit Act Compliance Report, which is a separately issued report.

* * * * *

SUPPLEMENTARY INFORMATION

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Schedule of Operating Revenue, Non-Operating Revenue and Capital Contributions
For the Year Ended December 31, 2006
With Comparative Amounts for the Year Ended December 31, 2005

	1/1/06 through 9/30/06	10/1/06 through 12/31/06	Totals	
			2006	2005
Operating revenue				
Passenger fares	\$ 1,429,482	\$ 572,867	\$ 2,002,349	\$ 1,657,967
Charter service	2,326	2,001	4,327	(1,024)
Special transit service	-	28,766	28,766	66,635
Other operating revenue	50,785	13,908	64,693	102,647
Total operating revenue	\$ 1,482,593	\$ 617,542	\$ 2,100,135	\$ 1,826,225
Non-operating revenue				
Tax levy	\$ 1,586,239	\$ 3,670	\$ 1,589,909	\$ 1,500,275
Federal grants:				
Operating grant - Section 5307	1,611,684	-	1,611,684	1,239,132
Capital grants	251,028	750	251,778	121,462
State of Michigan grants:				
Formula operating assistance	2,870,633	1,140,763	4,011,396	3,820,999
Capital grants	159,749	1,337	161,086	26,445
Section 5311	226,504	84,862	311,366	250,985
Inventory reimbursement	-	25,520	25,520	25,520
Other	15,080	119,805	134,885	84,086
Subsidies from other governments:				
City of Parchment	6,223	2,074	8,297	7,902
Comstock Township	40,044	13,348	53,392	50,850
Kalamazoo Township	75,031	25,010	100,041	95,277
Oshtemo Township	13,505	4,502	18,006	17,142
Kalamazoo Valley Community College	12,352	4,117	16,469	15,685
Western Michigan University	1,060,523	878,428	1,938,951	2,102,214
City of Portage	92,105	30,701	122,806	116,958
Kalamazoo County	112,500	-	112,500	125,000
Investment income	35,753	107,333	143,086	50,908
(Loss) on sale of capital assets	(75,011)	-	(75,011)	(84,180)
Total non-operating revenue	\$ 8,093,941	\$ 2,442,220	\$ 10,536,161	\$ 9,566,660
Capital contributions				
Federal grants	\$ 2,068,942	\$ 126,536	2,195,478	\$ 3,263,464
State grants	1,066,064	182,318	1,248,382	4,438,096
Local	5,000	-	5,000	1,413,111
Total capital contributions	\$ 3,140,006	\$ 308,854	\$ 3,448,860	\$ 9,114,671

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Schedule of Operating Expenses
For the Year Ended December 31, 2006

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total</u>
Salaries and wages	\$ 3,022,353	\$ 775,944	\$ 536,993	\$ 4,335,290
Fringe benefits	1,248,171	346,081	424,698	2,018,950
Materials and supplies:				
Fuel and lubricants	855,328	3,049	2,149	860,526
Repair parts	-	460,465	1	460,466
Other	94,125	42,711	82,392	219,228
Purchased transportation services	711,526	135	-	711,661
Advertising	-	-	42,096	42,096
Utilities	-	-	269,970	269,970
Insurance expense	457,902	-	62,816	520,718
Cleaning and maintenance	25,344	126,631	52,722	204,697
Accounting and administrative fees	-	-	535,475	535,475
Computer services	-	-	70,257	70,257
Professional and contractual services	1,071,936	42,059	230,269	1,344,264
Membership and dues	-	-	31,768	31,768
Small equipment/furnishings	4,892	368,541	-	373,433
Depreciation:				
Grant assets	-	-	1,064,842	1,064,842
Other assets	-	-	164,479	164,479
Miscellaneous	3,686	300	806	4,792
Total operating expenses	<u><u>\$ 7,495,263</u></u>	<u><u>\$ 2,165,916</u></u>	<u><u>\$ 3,571,733</u></u>	<u><u>\$ 13,232,912</u></u>

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Schedule of Expenses by Contract and General Operations
For the Year Ended December 31, 2006

	<u>Capital Grants</u>	<u>Operations and Charter</u>	<u>Total</u>
Salaries and wages	\$ -	\$ 4,335,290	\$ 4,335,290
Fringe benefits	-	2,018,950	2,018,950
Materials and supplies:			
Fuel and lubricants	-	860,526	860,526
Repair parts	39,872	420,594	460,466
Other	-	219,228	219,228
Purchased transportation services	-	711,661	711,661
Advertising	-	42,096	42,096
Utilities	-	269,970	269,970
Insurance expense	-	520,718	520,718
Cleaning and maintenance	-	204,697	204,697
Accounting and administrative fees	-	535,475	535,475
Computer services	-	70,257	70,257
Professional and contractual services	-	1,344,264	1,344,264
Membership and dues	-	31,768	31,768
Small equipment/furnishings	372,992	441	373,433
Depreciation:			
Grant assets	-	1,064,842	1,064,842
Other assets	-	164,479	164,479
Miscellaneous	-	4,792	4,792
Total operating expenses	<u>\$ 412,864</u>	<u>\$ 12,820,048</u>	<u>\$ 13,232,912</u>

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Net Eligible Cost Computations of General Operations
For the Grant Year Ended September 30, 2006

	1/1/2006 through 9/30/2006	10/1/2006 through 12/31/2006	Total
Expenses			
Salaries and wages	\$ 3,104,538	\$ 1,230,752	\$ 4,335,290
Fringe benefits	1,463,109	555,841	2,018,950
Materials and supplies:			
Fuel and lubricants	669,221	191,305	860,526
Repair	335,422	125,044	460,466
Other	137,476	81,752	219,228
Purchased transportation services	528,577	183,084	711,661
Advertising	32,002	10,094	42,096
Utilities	192,381	77,589	269,970
Insurance expense	210,898	309,820	520,718
Cleaning and maintenance	149,357	55,340	204,697
Accounting and administrative fees	401,607	133,868	535,475
Computer services	52,695	17,562	70,257
Professional and contractual services	1,001,728	342,536	1,344,264
Membership and dues	31,768	-	31,768
Small equipment/furnishings	369,836	3,597	373,433
Depreciation:			
Grant assets	798,632	266,210	1,064,842
Other assets	123,358	41,121	164,479
Miscellaneous	3,929	863	4,792
Total expenses	9,606,534	3,626,378	13,232,912
Less ineligible expenses and contra-expenses			
Michigan Public Transit Association dues	671	224	895
American Public Transit Association dues	1,545	515	2,060
Depreciation on capital assets acquired with grant funds	798,632	266,210	1,064,842
Charter service revenue	2,326	2,000	4,326
Project Zero	-	(280)	(280)
Ridesharing Program		8,751	8,751
Capital grant revenue	402,099	11,201	413,300
Total ineligible expenses and contra-expenses	1,205,273	288,621	1,493,894
Eligible expenses	\$ 8,401,261	\$ 3,337,757	\$ 11,739,018

Continued...

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Net Eligible Cost Computations of
General Operations (Concluded)
For the Grant Year Ended September 30, 2006

Eligible expenses - 10/01/2005 through 12/31/2005	\$ 3,257,561
Eligible expenses - 1/1/2006 through 9/30/2006	<u>8,401,261</u>
Total eligible expenses - grant year ended 9/30/2006	<u><u>\$ 11,658,822</u></u>

Maximum state operating assistance

Greater of:

33.141412454% of eligible urban expenses and

39.254593904% of eligible rural expenses

\$ 3,984,706

2005 operating assistance and bonus

\$ 3,607,499

1997 operating assistance

\$ 1,748,244

Maximum state operating assistance *

\$ 3,984,706

* Reimbursement based on 33.141412454% of eligible urban expenses and 39.254593904% of eligible rural expenses

CITY OF KALAMAZOO, MICHIGAN

Metro Transit System Schedule of Federal Grant Funding For the Year Ended December 31, 2006

Federal/Pass-through Grantor Program Title/Program Number		Award Amount	(Accrued) Deferred Revenue at 12/31/2005	Federal Receipts	Federal Expenditures	(Accrued) Deferred Revenue at 12/31/2006	Federal Revenue Recognized
U.S. Department of Transportation							
Federal Transit Administration - CFDA Number 20.507 - Capital, Planning, and Operating Assistance:							
Capital 1999	MI-90-X317	\$ 1,604,901	\$ (32,571)	\$ 38,326	\$ 5,755	\$ -	\$ 5,755
Capital 2002	MI-90-X382	1,117,801	(10,112)	10,112	-	-	-
Capital 2003	MI-90-X404	858,655	(2,700)	8,054	5,354	-	5,354
Capital 2004	MI-03-X206	3,775,993	(476,298)	1,585,152	1,108,854	-	1,108,854
Capital 2004	MI-90-X431	503,325	-	195,824	201,920	(6,096)	201,920
Capital 2005	MI-90-X455	1,632,732	-	65,403	77,053	(11,650)	77,053
Capital 2006	MI-03-0216	2,993,076	(135,503)	1,372,373	1,047,570	189,300	1,047,570
	MI-90-0495	n/a	-	-	750	(750)	750
Operating	n/a	1,611,684	-	1,611,684	1,611,684	-	1,611,684
Total federal financial assistance			<u>\$ (657,184)</u>	<u>\$ 4,886,928</u>	<u>\$ 4,058,940</u>	<u>\$ 170,804</u>	<u>\$ 4,058,940 (1)</u>

(1) Federal revenue is recorded in the Statement of Revenue, Expenses and Changes in Fund Net Assets as follows:

Non-operating revenue	\$ 1,863,462
Capital contributions	<u>2,195,478</u>
	<u>\$ 4,058,940</u>

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Schedule of State Grant Funding
For the Year Ended December 31, 2006

State/Pass-through Grantor Program Title/Program Number		Award Amount	(Accrued) Deferred Revenue at 12/31/2005	State Receipts	State Expenditures	Operating Assistance Adjustments	(Accrued) Deferred Revenue at 12/31/2006	State Revenue Recognized
Michigan Department of Transportation Capital, Planning, and Operating Assistance:								
Capital 1999	G99-0723	\$ 216,370	\$ (8,486)	\$ 9,924	\$ 1,438	\$ -	\$ -	\$ 1,438
Capital 2000	G00-0369	167,218	-	(14)	(14)	-	-	(14)
Capital 2001	G01-0523	1,808,005	-	(178)	(178)	-	-	(178)
Capital 2002	G02-0055/Z2	275,300	(2,528)	2,528	-	-	-	-
Capital 2003	G03-0055/Z4	209,663	(675)	1,768	1,093	-	-	1,093
State Share	G02-0055/12	941,323	(232,988)	510,200	277,212	-	-	277,212
State Share	G02-0055/Z9	125,831	(8,101)	57,057	50,480	-	(1,524)	50,480
State Share	G02-0055/Z11	-	(361,097)	1,045,836	746,347	-	(61,608)	746,347
State Share	G02-0055/Z19	-	(56,287)	281,108	245,025	-	(20,204)	245,025
State Share	MDOT-Z16	-	-	8,950	8,950	-	-	8,950
State Share	MDOT-Z17	-	-	50,366	51,897	-	(1,531)	51,897
State Share	MI-90-0455	-	-	10,351	10,351	-	-	10,351
ITC	G99-0701	-	(21,638)	21,638	-	-	-	-
Operating FY 2002		N/A	60,506	-	-	117,086	(56,580)	-
Operating FY 2003		N/A	99,774	-	-	69,445	30,329	-
Operating FY 2004		N/A	213,421	-	-	(179,594)	393,015	-
Operating FY 2005		N/A	95,951	-	-	(18,106)	114,057	-
Operating FY 2006		N/A	(95,661)	3,226,069	2,870,633	-	259,775	2,870,633
Operating FY 2007		N/A	-	1,106,907	1,140,763	-	(33,856)	1,140,763
Section 5311 FY 2004		N/A	(4,945)	4,673	-	-	(272)	-
Section 5311 FY 2005		N/A	(14,988)	32,252	-	-	17,264	-
Section 5311 FY 2006		N/A	(53,055)	350,177	243,371	-	53,751	243,371
Section 5311 FY 2007		N/A	-	-	84,862	-	(84,862)	84,862
Total state financial assistance			<u>\$ (390,797)</u>	<u>\$ 6,719,612</u>	<u>\$ 5,732,230</u>	<u>\$ (11,169)</u>	<u>\$ 607,754</u>	<u>\$ 5,732,230 (1)</u>

(1) State revenue is recorded in the Statement of Revenue, Expenses and Changes in Fund Net Assets as follow:

Non-operating revenue	\$ 4,644,253
Capital contributions	1,248,382
Less: inventory reimbursement	(25,520)
Less: other state grants	<u>(134,885)</u>
	<u>\$ 5,732,230</u>

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Schedule of Vehicle Miles
For the Year Ended December 31, 2006
(Unaudited)

	Line-Haul			Other	Demand
	Urban	Rural	Total	Services	Response
First quarter					
January	113,028	22,808	135,836	-	534
February	110,093	21,895	131,988	-	474
March	126,975	24,632	151,607	75	739
Total first quarter	350,096	69,335	419,431	75	1,747
Second quarter					
April	117,549	22,808	140,357	-	519
May	101,739	23,720	125,459	375	-
June	102,534	23,720	126,254	33	-
Total second quarter	321,822	70,248	392,070	408	519
Third quarter					
July	97,939	22,808	120,747	-	-
August	104,657	24,632	129,289	-	-
September	106,857	19,758	126,615	-	800
Total third quarter	309,453	67,198	376,651	-	800
Fourth quarter					
October	112,507	20,272	132,779	55	519
November	108,058	19,493	127,551	115	541
December	101,586	19,416	121,002	144	207
Total fourth quarter	322,151	59,181	381,332	314	1,267
Total	1,303,522	265,962	1,569,484	797	4,333
Cost Distribution of Urban and Rural Miles	83.05%	16.95%			

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

Care A Van Services	Specialized Services	ADA Services	Total
30,238	2,020	17,692	186,320
30,172	1,877	17,263	181,774
47,770	2,373	21,751	224,315
108,180	6,270	56,706	592,409
40,811	2,127	18,476	202,290
42,104	2,460	19,669	190,067
38,585	2,221	14,460	181,553
121,500	6,808	52,605	573,910
35,141	2,201	13,250	171,339
44,486	1,753	15,266	190,794
38,614	796	14,699	181,524
118,241	4,750	43,215	543,657
38,344	2,201	15,688	189,586
32,999	2,473	14,281	177,960
26,931	2,029	13,284	163,597
98,274	6,703	43,253	531,143
446,195	24,531	195,779	2,241,119

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Schedule of Line-Haul Passenger Data
For the Year Ended December 31, 2006
(Unaudited)

	<u>Line Haul</u>	<u>Other Services</u>	<u>Demand Response</u>	<u>Care A Van Services</u>	<u>Specialized Services</u>
First quarter					
January	279,056	-	103	7,339	963
February	278,206	-	103	7,161	1,087
March	<u>308,757</u>	<u>692</u>	<u>132</u>	<u>7,812</u>	<u>1,162</u>
Total first quarter	<u>866,019</u>	<u>692</u>	<u>338</u>	<u>22,312</u>	<u>3,212</u>
Second quarter					
April	267,240	-	93	6,864	923
May	190,134	2,628	-	7,746	1,280
June	<u>169,787</u>	<u>62</u>	<u>-</u>	<u>7,221</u>	<u>1,036</u>
Total second quarter	<u>627,161</u>	<u>2,690</u>	<u>93</u>	<u>21,831</u>	<u>3,239</u>
Third quarter					
July	150,467	2	-	6,169	893
August	176,000	-	-	7,234	980
September	<u>269,372</u>	<u>-</u>	<u>108</u>	<u>7,287</u>	<u>841</u>
Total third quarter	<u>595,839</u>	<u>2</u>	<u>108</u>	<u>20,690</u>	<u>2,714</u>
Fourth quarter					
October	309,935	161	85	7,348	956
November	290,990	71	126	6,379	1,067
December	<u>230,542</u>	<u>320</u>	<u>37</u>	<u>5,209</u>	<u>842</u>
Total fourth quarter	<u>831,467</u>	<u>552</u>	<u>248</u>	<u>18,936</u>	<u>2,865</u>
Total	<u><u>2,920,486</u></u>	<u><u>3,936</u></u>	<u><u>787</u></u>	<u><u>83,769</u></u>	<u><u>12,030</u></u>

The methodology used for compiling passenger data has been reviewed and found to be an adequate and reliable method for recording such information.

ADA Services	Total
3,181	290,642
2,951	289,508
<u>3,225</u>	<u>321,780</u>
<u>9,357</u>	<u>901,930</u>
2,765	277,885
2,938	204,726
<u>2,935</u>	<u>181,041</u>
<u>8,638</u>	<u>663,652</u>
2,375	159,906
2,737	186,951
<u>2,800</u>	<u>280,408</u>
<u>7,912</u>	<u>627,265</u>
3,001	321,486
2,721	301,354
<u>2,557</u>	<u>239,507</u>
<u>8,279</u>	<u>862,347</u>
<u><u>34,186</u></u>	<u><u>3,055,194</u></u>

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Schedule of Line-Haul Vehicle Hours
For the Year Ended December 31, 2006
(Unaudited)

	<u>Line-Haul</u>	<u>Other Services</u>	<u>Demand Response</u>	<u>Care A Van Services</u>	<u>Specialized Services</u>
First quarter					
January	10,441	-	55	3,614	392
February	10,177	-	58	3,649	359
March	11,719	13	80	3,185	451
Total first quarter	32,337	13	193	10,448	1,202
Second quarter					
April	10,792	42	50	2,929	380
May	9,191	3	-	3,075	470
June	9,251	-	-	2,814	393
Total second quarter	29,234	45	50	8,818	1,243
Third quarter					
July	8,860	-	-	2,556	363
August	9,621	-	-	2,883	384
September	10,010	-	61	2,994	226
Total third quarter	28,491	-	61	8,433	973
Fourth quarter					
October	10,564	5	48	2,973	202
November	10,110	5	49	2,569	188
December	9,405	17	20	2,099	164
Total fourth quarter	30,079	27	117	7,641	554
Total	120,141	85	421	35,340	3,972

The methodology used for compiling vehicles hours and passenger data has been reviewed and found to be an adequate and reliable method for recording such information.

ADA Services	Total
2,687	17,189
2,488	16,731
3,691	19,139
<u>8,866</u>	<u>53,059</u>
2,401	16,594
2,572	15,311
2,702	15,160
<u>7,675</u>	<u>47,065</u>
2,224	14,003
2,607	15,495
2,525	15,816
<u>7,356</u>	<u>45,314</u>
3,578	17,370
3,257	16,178
2,205	13,910
<u>9,040</u>	<u>47,458</u>
<u><u>32,937</u></u>	<u><u>192,896</u></u>



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

June 28, 2007

Board of Directors
Economic Development Corporation of the
City of Kalamazoo
Kalamazoo, Michigan

We have audited the financial statements of the *City of Kalamazoo, Michigan, Metro Transit System, a component unit of the City of Kalamazoo*, as of and for the year ended December 31, 2006, and have issued our report thereon dated June 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *City of Kalamazoo, Michigan, Metro Transit System's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the *City of Kalamazoo, Michigan, Metro Transit System's* internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the *City of Kalamazoo, Michigan, Metro Transit System's* ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Corporation's financial statements that is more than inconsequential will not be prevented or detected by the *City of Kalamazoo, Michigan, Metro Transit System's* internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the *City of Kalamazoo, Michigan, Metro Transit System's* internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *City of Kalamazoo, Michigan, Metro Transit System's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests and the reports of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the organization, the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.